



Effect of governance on HDI: A cross country analysis

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Abstract

For any country developed or undeveloped, high income or low income, presence of government in a form (communist or democratic) plays an important role in shaping the wellbeing of individuals. There are certain sectors which are essential for people but not attractive to private sectors. Even when the private sectors do participate their profit making motive distorts the social implications of these sectors. Therefore role of government becomes important as they ensure provision of these goods at the price suitable for all. Such sectors help shaping the quality of human capital of the capital. Hence suitability of a governing system is examined on the basis of how effectively it is distributing these resources. This paper has tried to examine the effect of governance on HDI index by using series of regression and analysis of data.

Keywords: governance, HDI

Introduction

For an economy, heavily dependent on private sector such as USA or economy heavily dependent on public sector like China, role of government is crucial in determining the socioeconomic indicators for a country. Health and education for any type of country usually lies in the hand of public sector and they are one of the most important indicator of the quality of life offered by the country to its citizens as they form the essential stepping stone towards the growth.

The term "governance" means a political unit for the functioning of policy-making for both the political and administrative units of Government. Good governance is based on the conviction that man has the ethical and rational ability, as well as the absolute right, to govern himself with motive and just. The concept of good governance is associated with capable and real administration in democratic set up.

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In practical terms, there are three features of good governance that makes it significance in the working of the government.

- First, the empowerment and capacity of government to frame and implement policies and discharge functions.
- Second, the form of political will.
- Third, the process by which authority is exercised in the management of country's economic and social resources for development.

Good governance as an important role in improving the various socioeconomic indicators for a country such as health, education, infrastructure, public sector services, administrative controls, police and patrolling etc. these are the primary requirement for a developing country like India.

The Human Development Index (HDI) is a composite statistic of life expectancy, education, and per capita income indicators, which are used to rank countries into four tiers of human development. A country scores higher HDI when the lifespan is higher, the education level is higher, and the GDP

per capita is higher. The HDI was developed by the Pakistani economist Mahbub ul Haq, often framed in terms of whether people can "be" and "do" desirable things in their life, and was published by the United Nations Development Programme.

The HDI was established to place emphasis on individuals, more precisely on their opportunities to realize satisfying work and lives. Evaluating a country's potential for individual human development provides a supplementary metric for evaluating a country's level of development besides considering standard economic growth statistics, such as gross domestic product (GDP). This index can also be used to examine the various policy choices of nations; if, for example, two countries have approximately the same gross national income (GNI) per capita, then it can help to evaluate why they produce widely disparate human development outcomes. One goal of the proponents of the HDI is to stimulate public policy debate.

Data and Variables

This a cross country analysis for year 2015.

Governance has been calculated based on these variables

Control of Corruption: captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

Government Effectiveness: captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Estimate gives the country's score on the aggregate indicator,

in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

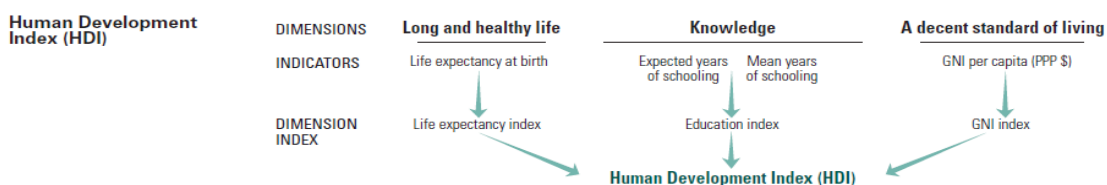
Rule of Law: Captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e.

ranging from approximately -2.5 to 2.5.

Regulatory Quality: Captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

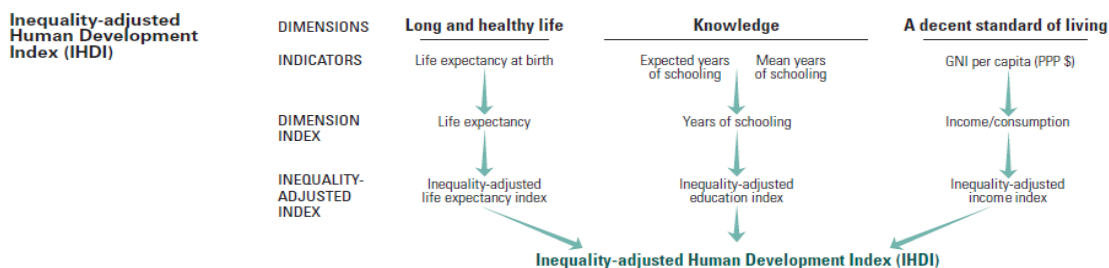
Voice and Accountability: Captures perceptions of the extent to which a country's citizens can participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

Human Development Index



Source: UNDP

Inequality adjusted Human Development Index

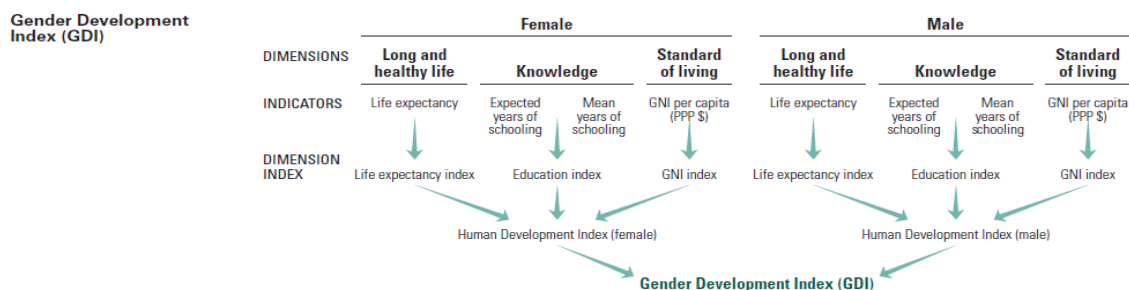


Source: UNDP

The Inequality-adjusted Human Development Index (IHDI) adjusts the Human Development Index (HDI) for inequality in the distribution of each dimension across the population. It is based on a distribution-sensitive class of composite indices proposed by Foster, Lopez-Calva and Szekely (2005), which draws on the Atkinson (1970) family of inequality measures. It is computed as a geometric mean of inequality-adjusted dimensional indices.

Gender Development Index

The Gender Development Index (GDI) measures gender inequalities in achievement in three basic dimensions of human development: health, measured by female and male life expectancy at birth; education, measured by female and male expected years of schooling for children and female and male mean years of schooling for adults ages 25 years and older; and command over economic resources, measured by female and male estimated earned income.



Source: UNDP

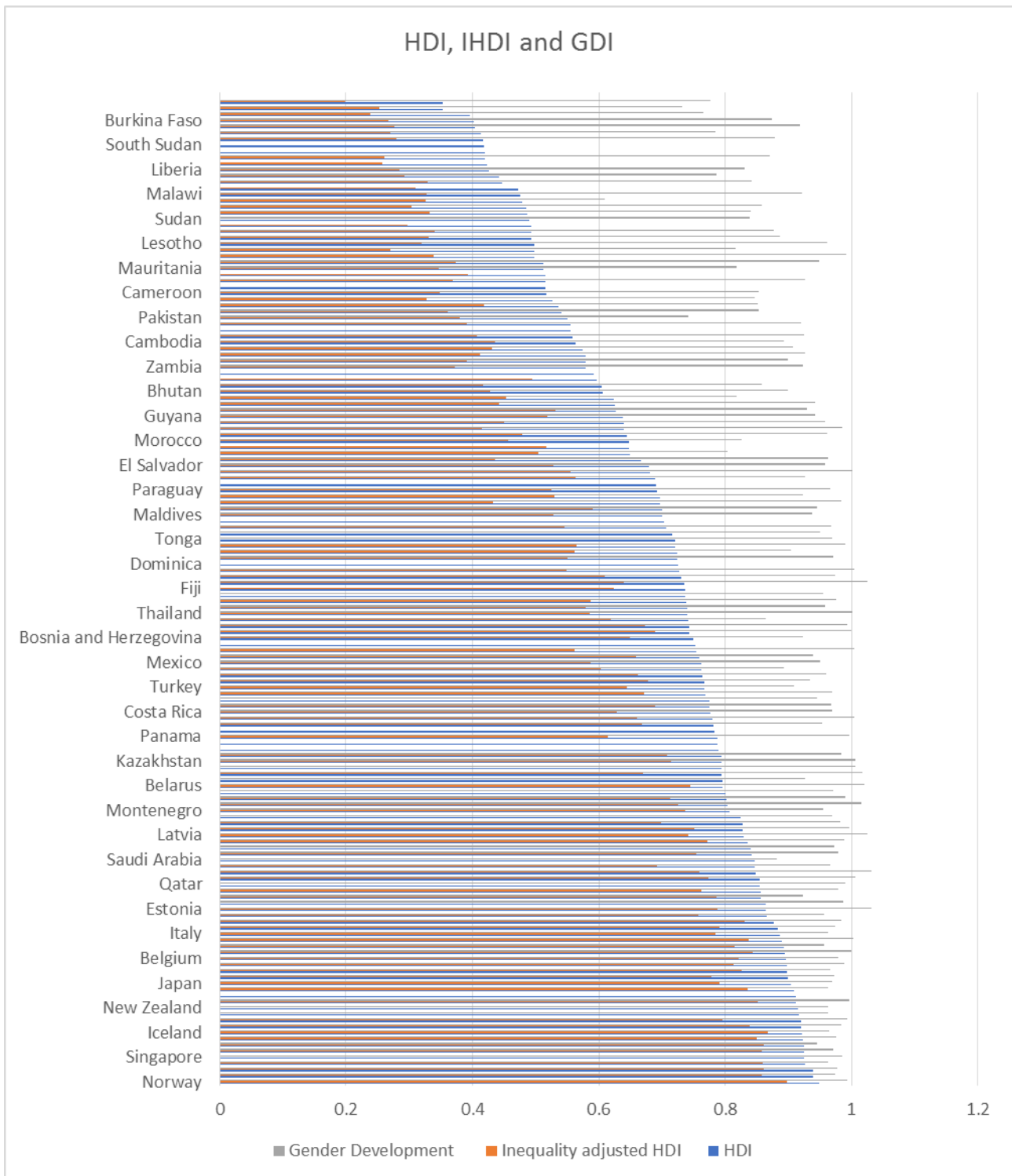


Fig 1: Governance Index

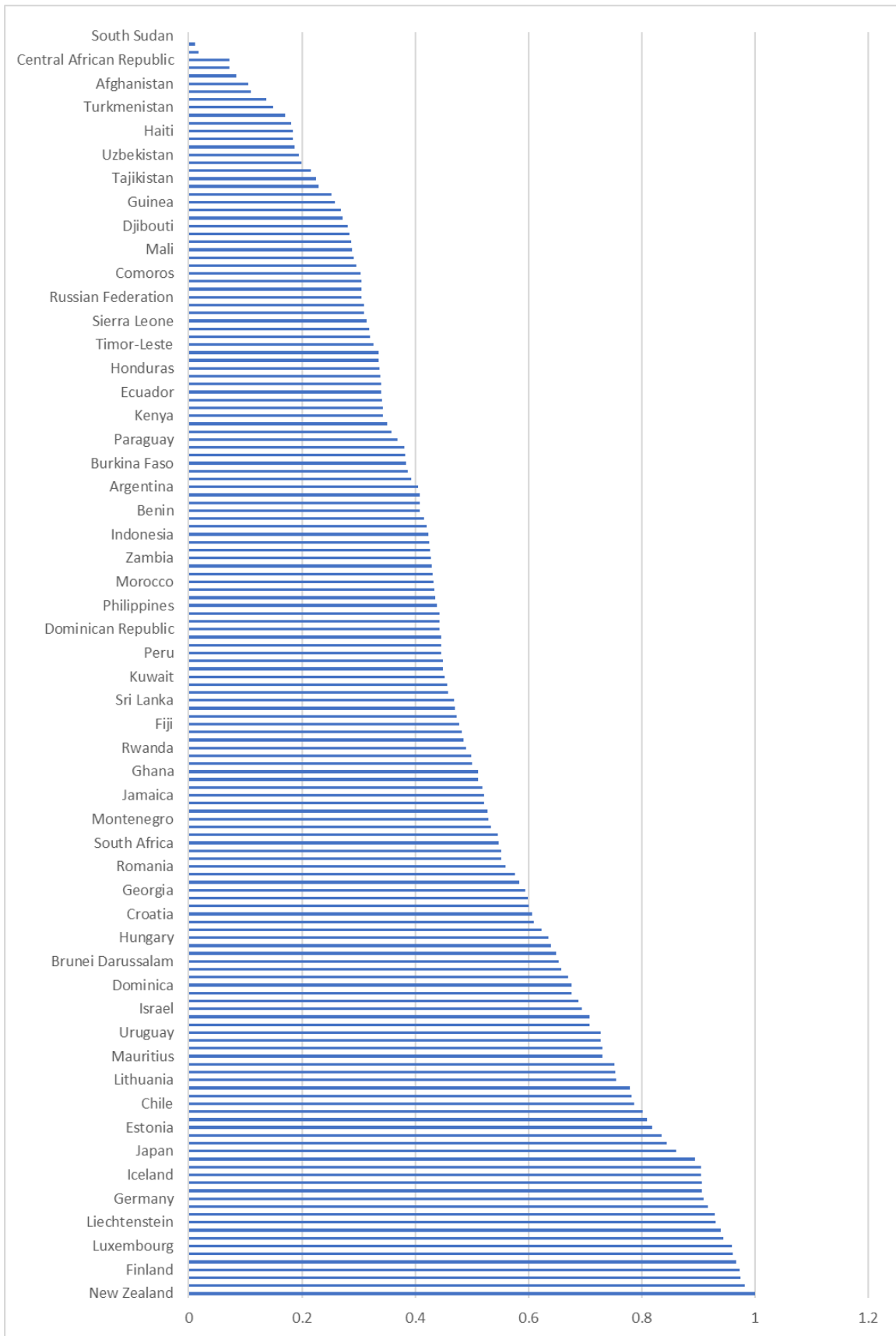


Fig 2

The governance index indicates New Zealand, Switzerland, Luxemburg and other European countries acing the list while African countries are at the bottom.

Table 1: Correlation and covariance

	Governance	HDI	IHDI	GDI
Governance	1			
HDI	0.8043	1.0000		
IHDI	0.7976	0.9819	1.0000	
GDI	0.5782	0.7171	0.6930	1.0000

We are getting very high degree correlation between governance and HDI suggesting plausibility of our hypothesis that governance indeed is the important determinant of the relation between the two variables.

Table 2: Regression Analysis with dependent variable governance

Variable	OLS	Quantile Regression
HDI	1.208951***	1.177535***
cons	-.3510782***	-.3328207***
Adj R ²	0.6328	0.3776
F	275.03	-
Obv	160	160
Variable	OLS	Quantile Regression
IHDI	.9608032***	.9743131***
cons	-.0445274	-.0608976
Adj R ²	0.6392	0.3927
F	231.28	-
Obv	160	160
Variable	OLS	Quantile Regression
IHDI	1.957181***	1.699015***
cons	-1.321677***	-1.119122***
Adj R ²	0.3215	0.1820
F	66.88	-
Obv	160	160

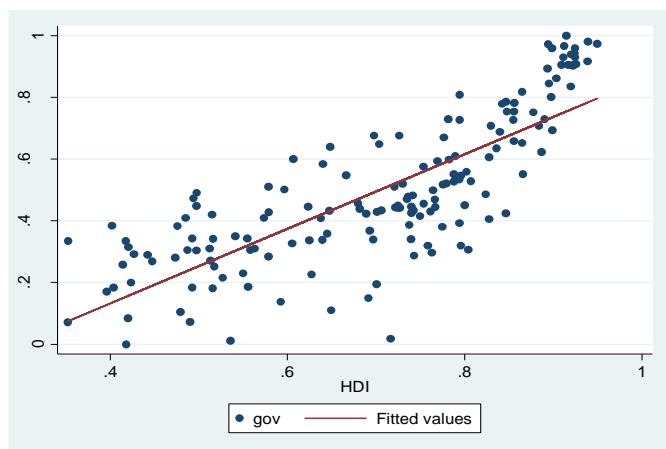


Fig 3: OLS

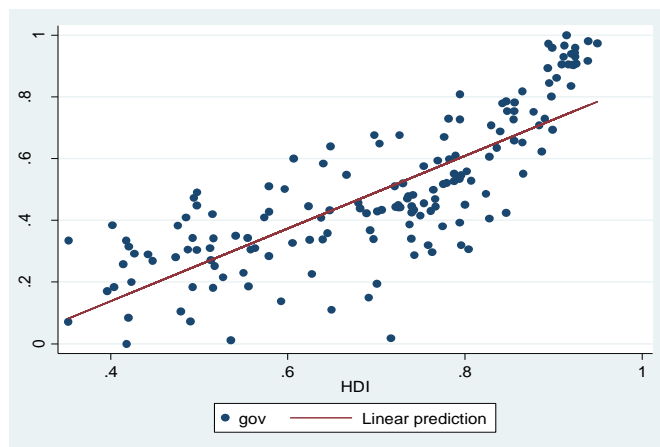


Fig 4: Quantile Regression

The regression results suggest there is a one on one relationship between the two variables. The results are highly significant.

Conclusion

The purpose of this study is to investigate the relationship between the World Bank's governance indicators and the socioeconomic development indicators of the Brics countries. The databases of many international organizations corresponding to the year 2015. As an exploratory exercise, this study tries to understand overall governance at each district in five dimensions: political, economic, social, administrative, and legal & judiciary. The HDI index may be the absolute indicator of human health and betterment but still one of the most reliable and utilized variables considered.

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